

Message Text

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TAGS: ENIV, ETRD, BENC, SHUM, KS

SUBJECT: CHRISTOPHER GROUP CONSIDERATION OF KOREA OPIC ITEMS

REF: A) STATE 203993, B) STATE 286263

1. EMBASSY VIEWS OF BHN ASPECTS RELATED TO ISSUANCE OF OPIC
INSURANCE TO FIVE U.S. INVESTMENTS IN KOREA FOLLOW:

(A) COLLINS RADIO INTERNATIONAL WILL INVEST \$650,000 IN THE
HANGUK COLLINS CO. TO PRODUCE 10,000 "MULTIPLEX CHANNEL ENDS"
AND 100 COMMERCIAL MICROWAVE RECEIVERS/TRANSMITTERS PER YEAR.
WHEN OPERATIONAL IT WILL EMPLOY ABOUT 50 PERSONS WHO WILL BE
SPECIALLY HIGHLY TRAINED TECHNOLOGICALLY. EMPLOYMENT WILL
EXPAND THEREAFTER TO ABOUT 60 PERSONS. THE PROJECT WILL INTRO-
DUCE NEW TECHNOLOGY WHICH REPRESENTS A JUMP UP FROM THE EXIST-
ING LEVELS IN THE KOREAN INDUSTRY AND WILL NOT BE COMPETITIVE
WITH OTHER ELECTRONIC MANUFACTURING. IT WILL GENERATE IMPORT
SUBSTITUTION WITH CONSEQUENT FOREIGN EXCHANGE BENEFITS OF \$3
MILLION BY 1980 AND INCREASING AMOUNTS THEREAFTER.

IN BHN TERMS, THE PROJECT WILL CREATE A NET INCREASE IN
EMPLOYMENT AT A HIGHER SALARY LEVEL THAN THAT PREVAILING IN
THE INDUSTRY WHILE OPENING HIGHER SKILL DEVELOPMENT OPPOR-
TUNITIES FOR THOSE AFFECTED. BUT BEYOND THAT MODEST CONTRIBU-

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TION, THE PURPOSE OF THE MICROWAVE EQUIPMENT TO BE PRODUCED
IS TO EXPAND OR IMPROVE NATIONAL TELECOMMUNICATIONS TO AREAS
WHICH ARE PRESENTLY NOT WELL SERVED. WE PERCEIVE RELIABLE
INSTANT LATERAL PUBLIC TELEPHONE COMMUNICATIONS AS A SIGNIFI-
CANT ADJUNCT TO FREEDOM OF SPEECH AND INFORMATION (AS DO THE
SOVIETS WHO CONTROL TELEPHONE AVAILABILITY AND PUT SECURITY
CLASSIFICATIONS ON THEIR TELEPHONE DIRECTORIES). THEREFORE,

PROJECT IS OF DIRECT BENEFIT TO THE PUBLIC (AND NOT TO THE GOVERNMENT) AND MEETS THE INTENT OF CRITERIA "I" AND "K" OF REFTEL (B).

EQUIPMENT WOULD BE BOUGHT BY THE SINGLE END USER, THE MINISTRY OF COMMUNICATIONS; HOWEVER, TELEPHONE SERVICE IS PROVIDED ON A NON-DISCRIMINATORY "FIRST COME FIRST SERVED" BASIS IN THE SAME MANNER AS IT IS IN THE U.S.A.

(B) THE FOXBORO COMPANY WILL INVEST \$1.764 MILLION IN ESTABLISHING THE HANSAENG-FOXBORO PLANT AT CHANGWON WHICH WILL PRODUCE INSTRUMENTATION AND CONTROL VALVES FOR GENERAL INDUSTRIAL USE. THE PROJECT WILL EMPLOY APPROXIMATELY 100 PERSONS IN A NEW \$7 MILLION IMPORT-SUBSTITUTION TECHNOLOGY WITH B/P BENEFITS AS WELL AS A NET INCREASE OF EMPLOYMENT WHICH OPENS HIGHER SKILL DEVELOPMENT OPPORTUNITIES TO INDUSTRIAL WORKERS. ITS PRODUCT WILL SERVE MARKETS THAT CANNOT BE SERVED FROM THE U.S. AND THEREBY GENERATE AN INCREASE IN U.S. EXPORTS (AND RELATED EMPLOYMENT) OF \$4.3 MILLION. THE BENEFITS OF THE PROJECT APPEAR TO APPLY MORE HEAVILY TO THE U.S. ECONOMY RATHER THAN TO KOREA FOR WHICH A RIVAL JAPANESE FIRM DESIRES TO MAKE THE SAME INVESTMENT.

IN ASCRIBING BHN CRITERIA TO THE PROJECT, WE WOULD NOTE THAT IT EXPANDS EMPLOYMENT AT HIGHER SKILL (AND THEREFORE WAGE) LEVELS THAN AVERAGE, AND, AT THE MARGINS, THESE EMPLOYMENT BENEFITS COULD ULTIMATELY EXTEND TO PERSONS LIVING IN THE LIMITED OFFICIAL USE

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CHANGWON AREA WHICH DRAWS ON THE UNDEREMPLOYED RURAL POOR POPULATION IN THE VICINITY. THE PROJECT CANNOT REPEAT NOT BE CONSIDERED TO BE OF DIRECT BENEFIT TO THE GOVERNMENT.

(C) CHEMTEX FIBERS, INC, WILL INVEST \$11.95 MILLION IN EXPANDING THE PRODUCTION OF THE WONJIN RAYON CO. LTD. THE PRODUCT WILL SUBSTITUTE FOR \$15.7 MILLION IN MATERIALS NOW BEING IMPORTED FROM THE U.K. AND JAPAN WITH A \$7.6 MILLION B/P BENEFIT TO KOREA AND ADDITIONAL U.S. EXPORTS OF \$9.4 MILLION PLUS AN ANNUAL RETURN TO THE U.S. OF \$3 MILLION THROUGH 1986. IT WILL CREATE EMPLOYMENT AND TRAINING FOR 113 KOREANS AND CONSTRUCTION AND OPERATIONAL EXPERIENCE WITH NEW TECHNOLOGY. THE PROJECT, WHICH IS OF BENEFIT TO U.S. EXPORTS AND RELATED EMPLOYMENT COULD BE PROVIDED BY NON-U.S. INVESTORS.

IN TERMS OF MEETING KOREAN BHN'S, INCREASED EMPLOYMENT OPPORTUNITY AND A SUBSTANTIALLY LOWER PRICE FOR THE PRODUCT WHICH WOULD PERMIT HIGHER WAGES FOR RELATIVELY LOW-PAID TEXTILE WORKERS APPEAR TO BE THE MAJOR BENEFITS. THE TEXTILE INDUSTRY TYPICALLY PROVIDES EMPLOYMENT FOR THE POOR IN KOREA. THE PROJECT CANNOT REPEAT NOT BE CONSIDERED TO BE OF DIRECT BENEFIT TO THE GOVERNMENT.

(D) MOTOROLA KOREA, LTD. IS A WHOLLY OWNED U.S. COMPANY WHICH WISHES TO INCREASE ITS EQUITY BY \$2.2 MILLION TO MODERNIZE AND EXPAND SEVERAL ASSEMBLY LINES, THE MOLD SHOP AND FINAL TEST FACILITY TO IMPROVE THE PRODUCTIVITY OF ITS SEMICONDUCTOR MANUFACTURING PLANT.

FROM THE BHN POINT OF VIEW, THE UPGRADING OF PRODUCTIVITY NOT ONLY PROTECTS THE LIVELIHOODS OF ITS 3,800 EMPLOYEES, BUT ALSO RAISES SKILL AND OUTPUT LEVELS AND PERMITS HIGHER WAGES TO BE PAID. THE ELECTRONICS INDUSTRY PROVIDES EMPLOYMENT FOR THE POOR IN KOREA. THE PROJECT CANNOT REPEAT NOT BE CONSIDERED TO BE OF DIRECT BENEFIT TO THE GOVERNMENT.

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(E) KEYSTONE INTERNATIONAL WISHES TO INCREASE ITS EQUITY BY \$666,000 TO RENOVATE, UPGRADE AND EXPAND THE PRODUCTION FACILITIES OF ITS WHOLLY OWNED SUBSIDIARY, KEYSTONE VALVE (KOREA) LTD., FOR THE PRODUCTION OF INDUSTRIAL VALVES. THE PROJECT WILL INCREASE EMPLOYMENT BY 40 PERSONS AND UPGRADE THEIR SKILLS, PRODUCTIVITY AND PRODUCT QUALITY. THE BHN BENEFITS OF THE PROJECT INCLUDE INCREASED LOCAL EMPLOYMENT, UPGRADING OF SKILL AND PRODUCTIVITY WHICH WOULD PERMIT PAYMENT OF HIGHER WAGES AS WELL AS UPGRADING PRODUCT QUALITY CONTROL. THE LOCATION OF THE PLANT IN SEOUL EXTENDS THE MARGINAL EFFECTS OF THESE EMPLOYMENT BENEFITS TO THE URBAN POOR. THE PROJECT CANNOT REPEAT NOT BE CONSIDERED TO BE OF DIRECT BENEFIT TO THE GOVERNMENT.

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2. EMBASSY COMMENT: AVAILABILITY OF OPIC INSURANCE, PARTICULARLY BECAUSE OF THE SPECIAL WAR RISK ON KOREAN PENINSULA, EXERTS A STRONG (IN MANY CASES, OVERRIDING) INFLUENCE ON U.S. FIRMS' INVESTMENT IN KOREA. IN THE FIVE CASES REVIEWED, WITH THE EXCEPTION OF MOTOROLA, THE ENTRY OF U.S. FIRMS WAS IN COMPETITION WITH JAPANESE, GERMAN, SWEDISH, FRENCH, OR BRITISH FIRMS WHO COULD PROVIDE THE SAME OR SIMILAR PRODUCTS. PROJECTS OF THAT KIND ARE NEUTRAL IN TERMS OF BENEFIT TO ROKG, BUT ALL BENEFITTED MORE OR LESS FROM ROKG BIAS TOWARD AMERICAN PRODUCTS. TURNDOWN OF ONE OR MORE INSURANCE APPLICATIONS WHICH MIGHT LEAD U.S. FIRMS TO CANCEL INVESTMENT PLANS OR TO WITHDRAW FROM THE ROK, IN THE CONTEXT OF OVERALL US/ROK RELATIONS, COULD VERY WELL TRIGGER SIZEABLE LOSSES IN U.S. EXPORT OPPORTUNITIES TO JAPANESE OR EUROPEAN EXPORTERS. IN ESSENCE, OPIC HAS EVOLVED HERE AS ONE OF THE VITAL FACTORS SUPPORTING U.S. EXPORT COMPETITIVENESS (AND B/P NEEDS) IN COMPLEMENTING THE ACTIVITIES OF THE U.S. EXIMBANK. ITS ACTIVITIES HAVE NOT REPEATED NOT RESULTED IN LOSS OF U.S. EMPLOYMENT OR DIRECT PRODUCT EXPORTS, BUT RATHER HAVE PLAYED A SIGNIFICANT ROLE IN ENHANCING U.S. EXPORT RELATED EMPLOYMENT AND NEW U.S. PARTICIPATION AND PENETRATION INTO IMPORT SUBSTITUTION FOR JAPANESE PRODUCTS. AS LONG AS THE PEACE IN KOREA REMAINS TENUOUS, OPIC'S WAR RISK INSURANCE PROGRAM, AT LEAST, WILL OPERATE MORE FOR THE BENEFIT OF THE U.S. THAN OF KOREA.

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3. BHN ARGUMENTS SUPPORTING OPIC INSURANCE FOR THESE PROJECTS NEED ALSO TO BE CONSIDERED AGAINST AN EVALUATION OF OVERALL ECONOMIC EQUITY IN ROK. THE COUNTRY ENTERED THE 1960'S WITH A HIGH DEGREE OF EQUALITY, BUT IT WAS AN EQUALITY OF POVERTY. SINCE THAT TIME, AS ITS KEY MEASURE TO MAINTAINING EQUALITY, THE ROKG HAS SOUGHT WITH A UNIQUE DEGREE OF SUCCESS TO PROVIDE ACCESS TO JOB OPPORTUNITIES FOR ALL. THIS CONTINUES TO BE A MAJOR NATIONAL CONCERN. INDEED, EVEN AT THIS TIME OF HIGH INFLATION, WHEN THE ROKG MIGHT CHOOSE TO SACRIFICE SOME OF ITS HIGH RATE OF GROWTH, PRESIDENT PARK RECENTLY ANNOUNCED THAT THE ROKG WOULD PURSUE ITS GROWTH TARGET FULL SPEED BECAUSE IT HAD TO PROVIDE 400,000 JOBS THIS YEAR FOR NEW ENTRANTS TO THE LABOR FORCE. AT THE SAME TIME, THE ROKG HAS BEGUN TO PURSUE A POLICY OF INVESTING IN HIGHER VALUE, HIGHER TECHNOLOGY INDUSTRIES WHERE ITS INCREASINGLY HIGHLY TRAINED AND EXPERIENCED LABOR FORCE CAN BE PUT TO WORK MORE PRODUCTIVELY AND EARN HIGHER WAGES. THUS, WHILE NONE OF THE PROJECTS UNDER CONSIDERATION IS BY ITSELF VERY IMPORTANT IN SATISFYING BHN'S IN KOREA, A DENIAL OF OPIC INSURANCE WOULD SEEM TO CAST THE USG IN A NEGATIVE

ROLE INCONSISTENT WITH OUR BHN GOALS HERE, SINCE IT WOULD PUT
THE USG IN OPPOSITION TO MEASURES MEETING EXACTLY THOSE BHN'S
WHICH THE ROKG HAS ALOS SOUGHT TO PROMOTE.
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